

# Advanced Macroeconomic Concepts

Macroeconomics · Practice Test · 8 Questions

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**1. Which of the following is the primary objective of a central bank implementing quantitative easing (QE)?**

- A) To directly increase government spending on infrastructure projects.
- B) To reduce the benchmark interest rate to zero or below.
- C) To inject liquidity into the financial system by purchasing assets.
- D) To implement strict price controls on essential goods.

**2. The Phillips Curve illustrates a short-run trade-off between which two macroeconomic variables?**

- A) Economic growth and government debt.
- B) Unemployment and inflation.
- C) Interest rates and exchange rates.
- D) Budget deficit and trade surplus.

**3. What does the concept of 'Ricardian Equivalence' suggest about government budget deficits?**

- A) Deficits inevitably lead to hyperinflation.
- B) Consumers will increase savings to offset future tax increases associated with current deficits.
- C) Deficits stimulate immediate consumption and investment.
- D) Deficits are primarily financed by printing money.

**4. In the IS-LM model, an increase in government spending would typically lead to:**

- A) A decrease in both the interest rate and output.
- B) An increase in the interest rate and a decrease in output.
- C) A decrease in the interest rate and an increase in output.
- D) An increase in both the interest rate and output.

**5. What is the primary mechanism through which expansionary monetary policy aims to stimulate aggregate demand?**

- A) Increasing taxes to fund public services.
- B) Reducing the money supply to encourage saving.
- C) Lowering interest rates to encourage borrowing and investment.
- D) Implementing tariffs on imported goods.

**6. The 'Laffer Curve' depicts the relationship between tax rates and tax revenue. What is its theoretical implication?**

- A) Higher tax rates always lead to higher tax revenue.
- B) There is an optimal tax rate that maximizes government revenue.
- C) Tax revenue is independent of tax rates.
- D) Lowering tax rates always increases tax revenue.

**7. A sudden and significant increase in the price of oil would most likely lead to which of the following in the short run?**

- A) A decrease in the general price level (deflation).
- B) An increase in aggregate supply and a decrease in inflation.
- C) A decrease in aggregate supply and an increase in inflation (stagflation).
- D) A decrease in unemployment due to increased demand for oil production.

**8. Which of the following is a direct consequence of a country running a persistent trade deficit?**

- A) An increase in the country's foreign exchange reserves.
- B) A decrease in the country's national debt.
- C) An increase in the country's net foreign debt.
- D) A strengthening of the country's domestic currency.